1-16-81
B5350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 5, 1981 VOLUME XVIII, NUMBER 1

Obstacles Confronting Mr. Reagan:

President-elect Reagan will face difficult challenges when he begins his efforts to reduce inflation and revive the economy, for 1981 is starting on a confusing note. Despite the Commerce Department's "flash" report that the GNP expanded at a healthy four per cent annual rate in the fourth quarter, President Carter is leaving behind a sagging economy. Evidence of renewed weakness is mounting—notwithstanding November's increase in the leading economic indicators.

A frequently used indicator of current economic activity is the output of paperboard as it is used for packaging. While production showed improvement in September and October, it declined by a seasonally adjusted 2.2 per cent in November to 2.6 million tons, and slowed even further during the first two weeks in December. Following a vigorous third quarter rebound, the Labor Department's weekly index of raw materials' prices, which usually responds quickly to changes in supply-demand trends and tends to foretell the near-term outlook for production, began to fall in December. It registered a three per cent drop in the last four weeks following a 14 per cent recovery since early summer. Although metals' prices were mostly responsible for the downturn, declining by almost four per cent in the last two weeks, textiles and fibers prices have slipped by 1.7 per cent, reversing their third quarter comeback.

Softening Output . . .

These trends have already begun to affect the pace of industrial production. November's increase slowed to 1.4 per cent from 1.8 per cent in the previous month. Sluggish demand at retail and conservative stocking of inventories by merchants affected consumer goods output more than any other category, resulting in production increases of less than half of October's pace. Automobile production was probably the main reason for this slowing, as production slowed to a three per cent increase from 13 per cent registered during the previous month. The rise in home goods was the smallest in three months, reflecting the adverse effects of high mortgage rates on housing starts and house transfers.

Reflecting these ominous signs in industrial output, domestic machine tool orders declined by more than 23 per cent in November compared with a year ago, although this fall was probably cushioned by a high rate of orders from the aerospace, automobile and energy industries. Machine tool orders may be viewed as a near-term leading indicator, as they are the first to be postponed when production cuts are planned and first to be ordered when production picks up. The largest decline so far this year has occurred in orders for metal-forming type machine tools where orders are currently running at less than half the pace posted at the onset of the recession in February 1980.

. . . Slower Shipments . . .

As industrial production has slowed, so has the need for transportation of manufactured goods and materials. For example, hauling by trucks, which is measured by the American Trucking Association's seasonally adjusted index of truck tonnage, slowed to a monthly increase of 1.6 per cent in October from a 13.1 per cent rise in September over the previous month. Rail transportation—after subtracting coal and grain shipments—has also slowed in recent weeks compared with the relatively sharp gains posted in the third quarter. Most importantly, shipments of building materials such as stone, clay, glass and lumber, food, metallic and nonmetallic ores and motor vehicles suffered substantially reduced demand during the fourth quarter compared with the third.

Inflation returned to a double-digit rate of rise in November for the third month in a row. Despite hopes of reversing the long-term escalation in the "core" or imbedded rate of inflation—reflecting low productivity and relatively high labor costs—in the short run, additional shocks stemming from high interest rates and high food and energy costs will make the task of lowering the rate of inflation below ten per cent within the next six months extremely difficult.

. . . More Inflation

The recent rise in energy prices, especially home heating oil, which followed five months of decline,

Copyright 1980
Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

BEST AVAILABLE COPY

coupled with the unusually cold winter particularly in the Northeast has resulted in additional pressure being brought to bear on consumers' discretionary incomes. So far in the current heating season, the number of heating degree days adjusted for population—used as a rough measure of demand for heating fuel by the Department of Energy—is substantially above last year's level and two per cent above normal. In New York City, for example, temperatures this heating season have averaged 37 per cent lower than last year. Further rises of home heating fuel and gasoline prices are practically guaranteed for the near future as a consequence of last week's round of OPEC price increases in which some producers raised the price of crude to $41 a barrel. Importantly, food prices, which have already advanced significantly, are expected to soar at a faster pace during the next six months, particularly meats and poultry.

While used car prices contributed to the substantial rise in consumer prices in November, this may also be good news for the automobile industry, as rising prices of used cars in the past have signaled a future improvement in new car sales. Traditionally, as demand for cars resumed after a period of slumping sales, the increase was first registered in the least expensive end of the market such as used cars. As demand firmed so did prices, eventually narrowing the differential between used and new car prices. As

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/24/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.086	– 2.117	+ .769
Loans to Depository Inst.	1.649	+ .144	+ .424
Float	6.161	+ 1.940	– .592
Total Reserve Bank Credit	144.288	+ .306	+ 3.044
Treasury Deposits with Federal Reserve Banks	2.287	– .497	– .808
Currency Outside Banks	122.907	+ .907	+ 9.153
Member Bank Reserves:			
Required	40.029	– .525	– 3.574
Excess (Deficiency)	.928	+ .426	+ .562
Total Reserves Held	40.957	– .099	– 3.574
Net Borrowed Reserves	.602	– .277	– .176
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.963	+ 1.736	+15.154

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (12/24/80)	387.7	+ 4.9‡	+ 5.4‡
M-1B (12/24/80)	413.2	+ 7.3‡	+ 7.5‡
M-2 (November '80)	1,688.8	+ 9.7	+ 10.1
L (September '80)	2,295.1	+ 12.4	+ 8.8

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/2/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.25%	13.72%	12.38%
* Federal Agencies	15.71	15.23	13.99
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.43	13.61
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.00	14.50	12.50

‡Finance Company Paper—Prime

5- 14 days	16.50%
15- 29 days	16.50
30- 59 days	16.25
60-179 days	15.00
180-270 days	14.50

‡* Bankers' Acceptances

Feb.	17.50%
Mar.	16.45
Apr.	16.00
May	15.45
Jun.	14.90
Jul.	14.55

‡Industrial Paper—Prime

30- 89 days	17.63%
90-120 days	16.25

†Federal Funds Effective Rate 20.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,637	$ 2,565	$ 2,444
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,472	$ 1,463	$ 1,488
Percent Change, Annual Rate	3rd Q'80	2.4%	– 9.9%	4.1%
Change in Consumer Prices (all urban consumers)*	Nov '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons)†	Nov '80	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force†	Nov '80	7.5%	7.6%	5.8%
Personal Income*	Nov '80	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100)†	Nov '80n	137.6	136.0	135.6
Industrial Production Index (1967=100)†	Nov '80	148.5	146.5	152.3
Net Change in Consumer Installment Credit†	Oct '80	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance†	Oct '80	–$ 0.97	–$ 0.76	–$ 2.36
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Nov '80n	$ 231.8	$ 225.0	$ 239.4
Total Business Inventories†	Oct '80	$ 457.3	$ 454.6	$ 422.7
Total Business Sales†	Oct '80	$ 325.5	$ 318.3	$ 298.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

BEST AVAILABLE COPY

consumers received more money for trade-ins, new cars in effect became cheaper, thus reducing the net cash outlay required for the new car. Currently, however, the disappointing reception that domestically produced 1981 model cars have received has been the major culprit behind the recent drop in steel output: The automobile industry is the largest consumer of steel produced in the United States. This important indicator registered a sharp drop during the past three weeks after an increase of 6.5 per cent in November and 21 per cent in October.

As the above glance at the most recent data suggests, the economy is slowing down and may well be slipping into a renewed recession, ending the brief pause experienced during the third quarter and the beginning of the fourth. Stubborn inflation and record high interest rates have already choked-off the automobile and housing industries—the two sectors which pulled the economy down during the second quarter and were responsible for a large portion of the $38.6 billion drop in real GNP. Furthermore, consumer purchasing power has been and will continue to be squeezed as income gains are eroded by inflation, higher Social Security taxes and the likelihood of increasing unemployment in the next few months. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/17/80)	111,327	+ 2,278	+18,118
New York City (12/17/80)	27,457	+ 800	+ 7,010
Commercial Paper (12/17/80)	123,193	− 1,730	+10,865

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/80)	174,059	+ 1,295	+17,549
New York City (12/17/80)	51,901	+ 121	+ 4,938

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/80)	427,586	+ 2,238	+30,021
New York City (12/17/80)	101,566	+ 1,114	+11,112

Financial Markets

	Friday 1/2/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.96%	− .16	+ 2.25
180-Day Bills†	14.93	− .07	+ 2.07
Longest Bills†	13.83	− .07	+ 1.50
Recent Issues:			
15 1/8s 12/31/82	13.00	−0−	
14s 12/31/84	12.65	− .05	
13s 11/15/90	12.38	+ .18	
12 3/4s 11/15/10	11.93	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (12/31/80)	9.76%	− .23	+ 2.44
Blue List Total ($ Million)	$ 553	− $ 9	− $ 468
30-Day Visible Supply ($ Million)	$ 850	− $ 15	− $ 272
Total	$1,403	− $ 24	− $ 740
Corporates:			
Moody's Aa Composite (12/31/80)	13.56%	− .03	+ 2.18
Money Mgr.—30-Day Supply ($ Million)	$3,470	+ $ 53	+ $1,670
Stocks:			
Dow-Jones Averages:			
Industrials	972.78	+ 6.40	+ 143.94
Transportation	401.43	+ 1.51	+ 150.12
Utilities	115.12	− 1.67	+ 8.18
65 Stocks	376.58	+ 0.96	+ 80.36
Standard and Poor's 500 Stocks	135.53	− 1.04	+ 29.01
N.Y.S.E. Composite Index	78.26	− .02	+ 17.09
N.Y.S.E. Avg. Daily Vol. for Week (000's)	39,411	+ 1,191	− 1,097

* 46% Taxable equivalent 18.07%.

† Bond equivalent.

International Rates

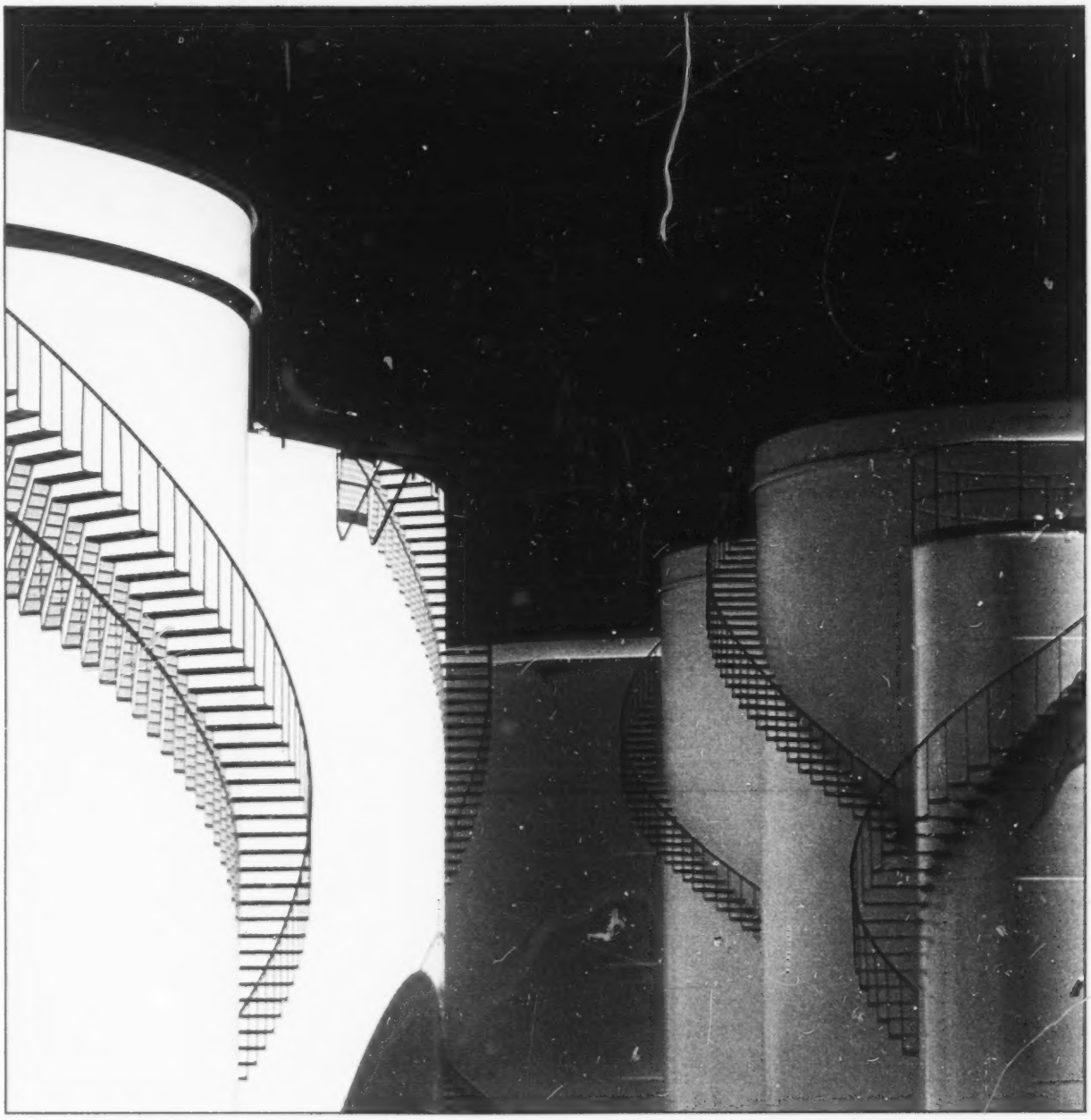
	Friday 1/2/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.87%	20.50%
1 month	19.13	20.00
3 month	18.00	18.12
6 month	16.87	17.12
1 year	15.06	15.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.55%
Long Term (7 to 15 yrs.)	12.80	12.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/2/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03170	31.55
Canada	.8398	1.1907
Denmark	.1663	6.0150
France	.2208	4.5300
Germany	.5103	1.9595
Italy	.001076	929.00
Japan	.004909	203.70
Mexico	.04310	23.20
Netherlands	.4689	2.1325
Switzerland	.5653	1.7690
U.K.	2.3830	.4196

The Energists . . .

. . . Manufacturers Hanover Leasing Corporation, the largest bank-affiliated equipment financing company in the world, is involved every step along the energy chain—from financing oil rigs to entire electric generating plants. Our nearby offices offer the broadest array of financing alternatives available anywhere. Put our energies to work for you.



MANUFACTURERS HANOVER LEASING CORPORATION

The key to total equipment financing. Worldwide. • Headquarters: 30 Rockefeller Plaza, N.Y., N.Y.

Single Investor Lease/Leveraged Lease/Finance Lease/Conditional Sales Agreement/Chattel Mortgage/Master Lease and Financing Programs/Sale and Leaseback/Vendor Programs/Project Financing/Leveraged Lease Syndication